JM&B Monthly Gold & Silver Report
November 2010

http://www.johnson-matthey.ch/

Introduction

The purpose of this report is to comment on developments in the gold and silver markets on a monthly basis. For more information about this report, please consult the Appendix. Johnson Matthey plc issues reports on platinum group metals:

http://www.platinum.matthey.com/publications/price_reports.html

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1. Commentary

Once again, as in October, new highs for gold and silver in November were followed by a price correction.

2. Gold

2.1 News and Fundamental Considerations

Selected News Items from the Month

Washington, 7th November 2010, (FT) – Leading economies should consider readopting a modified global gold standard to guide currency movements, argues the president of the World Bank.

Writing in the Financial Times, Robert Zoellick, the bank's president since 2007, says a successor is needed to what he calls the "Bretton Woods II" system of floating currencies that has held since the Bretton Woods fixed exchange rate regime broke down in 1971.

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Mr Zoellick, a former US Treasury official, calls for a system that "is likely to need to involve the dollar, the euro, the yen, the pound and a renminbi that moves towards internationalisation and then an open capital account". He adds: "The system should also consider employing gold as an international reference point of market expectations about inflation, deflation and future currency values."

His views reflect disquiet with the international system, where persistent Chinese intervention to hold down the renminbi is blamed by the US and others for contributing to global current account imbalances and creating capital markets distortions.

This week's meeting of government heads in South Korea is likely to see yet more exchange rate conflict. A US plan for countries to sign up to current account targets has run into widespread opposition.

Wolfgang Schäuble, Germany's finance minister, has raised the temperature by describing the US economic model as being in "deep crisis" and criticising the US Federal Reserve's decision to pump an extra $600bn into financial markets. "It is not consistent when the Americans accuse the Chinese of exchange rate manipulation and then steer the dollar exchange rate artificially lower with the help of their [central bank's] printing press."

Although there are occasional calls for a return to using gold as an anchor for currency values, most policymakers and economists regard the idea as liable to lead to overly tight monetary policy with growth and unemployment taking the brunt of economic shocks.

The original Bretton Woods system, instituted in 1945 and administered by the International Monetary Fund, the World Bank's sister institution, comprised fixed but adjustable exchange rates linked to the value of gold. Controls to restrict destabilising shifts of capital from one economy to another buttressed it.

"The scope of the changes since 1971 certainly matches those between 1945 and 1971 that prompted the shift from Bretton Woods I to II," Mr Zoellick writes. "Although textbooks may view gold as the old money, markets are using gold as an alternative monetary asset today."

Beijing, 17th November 2010, (Bloomberg) – China is considering gradually increasing the nation's gold reserves, the 21st Century Business Herald reported today, citing an unidentified consultant to the government.

There are limits to China's ability to increase gold holdings on a large scale within a short time, so the gains in the government reserves will be a slow, incremental process, the newspaper said, citing the consultant. China currently has 1,064 metric tons of gold, accounting for 1.6 percent of its foreign exchange reserves, it added.

Gold has gained 22 percent this year, reaching a record $1,424.60 on Nov. 9, as a weakening dollar and concern about the global recovery has spurred demand for a store of value. China should purchase gold and oil overseas with its foreign-exchange reserves to avoid losses from a weakening dollar, Shao Fenggao, an official at China Construction Bank Corp., said on Nov. 1.

"People have always been speculating about China's gold reserves, but I think there is not much point in second-guessing whether the government is going to buy gold," Ronald Wang, general manager for greater China at the World Gold Council, said by phone from Beijing today. “They have access to information and they must have a plan with regard to gold.”

China remained the biggest foreign holder of U.S. Treasuries, after its holdings rose by $15.1 billion to $883.5 billion in September from $868.4 billion in August, according to the Treasury’s statistics.

Low Holdings

China’s gold holdings are far lower than the 8,133 tons held by the U.S. government, and are only higher than 25 countries of the 110 countries tracked by the International Monetary Fund, the newspaper said.

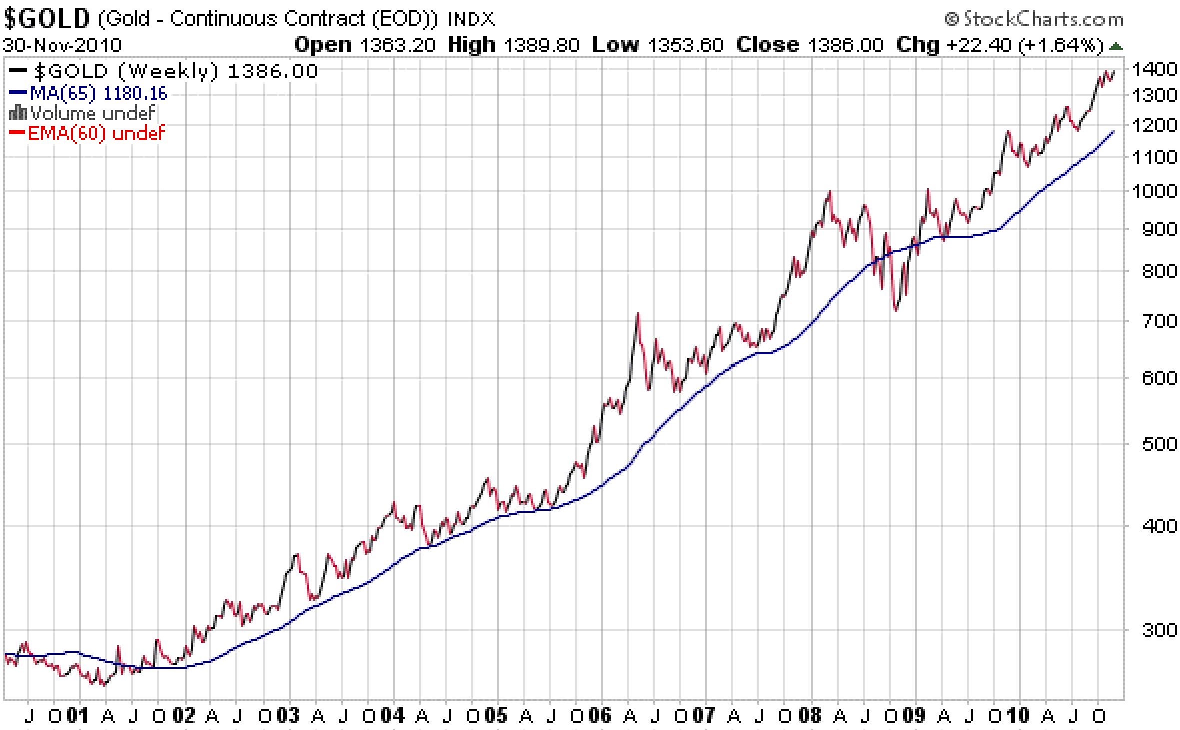
Meng Qingfa, a researcher at the China Chamber of International Commerce, wrote last month in the International Business Daily that China should increase its gold holdings.

China’s gold market may double in the next decade as retail investment and jewellery demand gain, the council’s Wang said Nov. 3. Demand may gain to 800 tons to 900 tons in the next ten years, Wang said. China’s jewellery and investment gold demand was 428 tons in 2009, according to the council.

2.2 Technical Comments

Long Term Technical Comments

No change in the long-term trend:



Daily/Weekly Technical Comments

London afternoon fix in USD/oz:

Open	High	Low	Close
1st November	9th November	17th November	30th November
1355	1421	1338	1384

London afternoon fix in €/oz:

Open	High	Low	Close
1st November	30th November	3rd November	30th November
975.3	1064	958.9	1064

Another new high for gold in November was followed by a correction and a period of price consolidation.

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3. Silver

3.1 News and Fundamental Considerations

Washington, D.C., 1st November 2010, (Silver Institute) – Silver investment continues to grow rapidly in 2010, with global holdings in exchange-traded funds (ETFs) backed by physical silver holdings at their highest recorded levels, and U.S. silver bullion coin demand set to outpace last year's record sales.

Global holdings in silver-backed ETFs stand at over 448,887,000 million ounces (Moz). Over 326 Moz of physical silver are currently held by the iShares Silver Trust alone. Launched in April of 2006, the product trades on the American Stock Exchange under the symbol "SLV" and is managed by BlackRock. Total net assets in the iShares silver trust were $7.8 billion as of October 29, 2010.

Other notable silver-backed ETFs are those managed by ETF Securities LTD and Zürcher Kantonalbank (ZKB). A new entrant to market is Sprott Inc., which announced last week the initial public offering of its Sprott Physical Silver Trust, which will be listed on NYSE Arca and the Toronto Stock Exchanges.

Investors are flocking to these efficient investment tools that make investing in silver convenient, giving the investor exposure to the market without the necessity of taking physical delivery and thereby having no storage, insurance or assaying costs.

Silver bullion coin demand is also particularly buoyant in 2010. Sales of the U.S. Mint's one-ounce Silver American Eagle Bullion coin already exceed 28 million coins this year, and given current demand should top last year's record of 28.7 million coins. Similarly, the Royal Canadian Mint is reporting that 2010 sales of its popular Silver Maple Leaf bullion coin are 30 percent higher than 2009 figures to date.

Michael DiRienzo, Executive Director of the Silver Institute, stated, "Today, the silver price is approaching $25.00 per ounce and through 2010, the silver price has risen an impressive 47 percent to levels not seen in 30 years. While this is primarily due to solid investment demand, there is evidence that industrial demand for silver is also on the rise, and that too bodes very well for silver in the long-run." he added.

Third quarter silver news from the silver institute:

http://www.silverinstitute.org/images/pdfs/3q2010.pdf

London, 17th November 2010, (GFMS) – Interim Silver Market Review

Highlights
Fabrication demand – projected to rise by 10% in 2010 as a strong but only partial recovery in industrial uses, record coin demand and slight growth in jewellery off-take easily counter losses in photography and silverware fabrication.

Supply – forecast to rise by 5% in 2010 mainly due to ongoing modest gains in mine production and double-digit growth in scrap, plus a rise in government sales.

Investment – volumes on a World Investment basis (including all coins) set to rise to a record level this year, with its net value reaching roughly $4 billion. Conditions in 2011 likely to remain conducive to high levels of investment, providing the chief support to
further price gains.

Prices – GFMS forecast the annual average in 2010 at $19.94, up a massive 36% year on-year. GFMS expect the silver price to trade over $30 in 2011, with the annual average likely to easily surpass the current all time high, 1980's $20.98.

This evening at the annual New York Silver Dinner organised by The Silver Institute, GFMS presented its interim silver market review. This review included GFMS' provisional supply and demand forecasts for 2010 and the consultancy's expectations for silver supply, demand and the price in 2011. The key points from this review are as follows:

Supply

Total supply is forecast to end its three-year run of stability and rise by 5% in 2010. Much of the gains will come from higher mine production and scrap, plus a higher but still modest absolute level of government sales.

Mine production should again register moderate growth, rising some 24 Moz (740 t) or over 3% in 2010. Gains centre on Mexico (mainly the ramp up at Goldcorp's Peñasquito and Coeur d'Alene Mines' Palmarejo), Argentina (chiefly the ramp up of Silver Standard Resources' Pirquitas), Chile and Australia (thanks to gains at BHP Billiton's Cannington). A key loss is a 5% decline in Peru. Globally, primary silver output is expected to grow around 3% with stronger gains for gold and lead/zinc, while copper mines look set to deliver slightly less silver.

Scrap supply is forecast to expand by over 10% this year thanks to growing receipts from industrial and jewellery sources and despite the ongoing structural slide in recovery from photographic waste, the main source of silver.

Government sales are projected to rise strongly this year, chiefly due to higher sales by CIS countries, although the world total reached would remain low in comparison to the average rate of sales over the past decade.

Demand

Fabrication demand is forecast to grow by almost 10%, although the projected total remains some 4% down on 2008. Ongoing but more modest growth in 2011, however, should lift global demand back to earlier record levels.

Industrial demand looks set to rebound by a healthy 18% this year, thanks to a recovery in underlying demand and the refilling of a heavily denuded supply pipeline. This, however, only represents a partial recovery with the 2010 figure still a little down on 2008 levels. Limited further gains from stock replenishment plus a possible slowdown in global GDP growth should mean less dramatic increases for industrial off-take next year, perhaps ruling out a return to pre-crisis levels despite the surging contribution from the photovoltaic and ethylene oxide catalyst sectors.

Jewellery fabrication is expected to rise by around 3% this year, in part as a result of substitution from increasingly unaffordable gold. Further such modest gains are forecast in 2011, taking off-take to a five-year high.

Silverware demand is projected to fall by 13% this year, due mainly to price focused losses in India.

Photographic use of silver is forecast to continue its structural decline due to digital inroads, shedding some 11% this year, with further if less hefty losses expected next year.

Coin minting is set to rise a robust 23% this year, taking the total to an all time high basis GFMS' data series.

Producer hedging is currently expected to stay on the demand side this year but only at very modest levels.

Investment
Investment demand (including all coins & medals) remains elevated, being projected to grow in 2010 to an all time high (basis GFMS' records) of over 210 Moz (6,500 t). Further gains to a new record are also projected for 2011.
Investment earlier in 2010 owed much to confidence over world economic growth and thus industrial metals' demand. It also benefited from safe haven buying in May and June, due largely to the European sovereign debt crisis.

After a 'summer lull', there has been much stronger growth in investor interest. Key to this have been concerns over the solidity of the US dollar and potential future inflation stemming in the main from the Federal Reserve's next round of quantitative easing. Further support has come from a positive price trend, the fact that the all-time nominal high for silver (almost $50/oz in 1980) remains a good way off and as silver's historically greater volatility but close correlation to gold continues to attract those seeking a more leveraged alternative to the yellow metal.

Prices
Silver prices in the first 10 months of the year, basis the London fix, averaged $18.61, a rise of 32% year-on-year but that excludes early November's spike to a year-to-date high of $28.55, representing an intra-year gain of 66%.

The main driver of the price remains investment demand and, in GFMS' view, this has elevated silver to well over fundamental equilibrium levels in the absence of such investment.

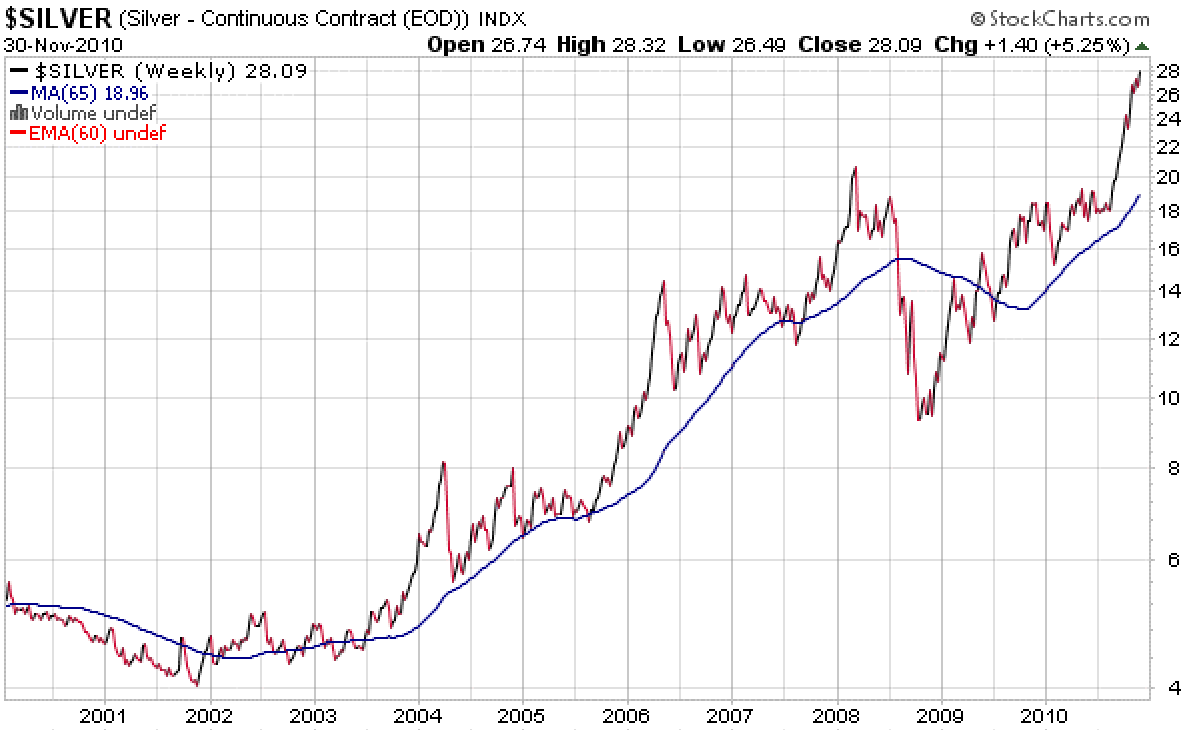
Silver's fundamental demand (i.e. excluding investment) should continue to rise next year, chiefly due to gains in industrial uses. However, this will be outweighed by gains in total supply as mine output rises (both scrap and government sales are projected to fall). While this might appear bearish, we remain confident that investors will be of a mood to absorb the resultant, growing surplus, as key supports such as ultra-low interest rates, a weakening dollar and a buoyant gold market should remain with us, all of which should be easily enough to rally silver prices yet higher.

In spite of what appears currently to be a substantial end-year correction in the price, GFMS still expect silver to trade over $30 in 2011. However, we are doubtful such elevated levels will be sustained throughout the year and, as a result, we see an annual average either side of $28 as more likely. We could also add that a retreat from over $30 would not necessarily imply an end to the multi-year rally in 2011.

3.2 Technical Comments

Long Term Technical Comments

Silver moved to new highs for the current bull market again in November:



Daily/Weekly Technical Comments

London fix in USD/oz:

Open	High	Low	Close
1st November	9th November	2nd November	30th November
24.91	28.55	24.73	27.13

London fix in €/oz:

Open	High	Low	Close
1st November	30th November	2nd November	30th November
17.88	20.85	17.68	20.85

Same technical picture for silver in November as in October, new highs, followed by a correction and consolidation.

John Fineron, 1st December 2010.

Appendix: More about this report

Purpose of the Report
The purpose of this report is to comment on developments in the gold and silver markets on a monthly basis. Johnson Matthey plc issues reports on the platinum group metals:

http://www.platinum.matthey.com/publications/price_reports.html

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http://www.adobe.com/products/acrobat/readstep.html

This report is prepared in the English language, as are the vast majority of contributions on precious metal markets.

Structure of Report
The report comprises two sections:

Fundamental Considerations
This section addresses aspects of supply and demand in gold and silver, which typically affect the market over periods of several years. Over the long term, the price of a commodity will rise or fall until natural supply and demand reach equilibrium. Completion of this process, can take many years and is significantly influenced by hoarding and dis-hoarding. For example, dis-hoarding of stockpiles to compensate for supply shortages can proceed over decades and thereby delay movement to a true equilibrium price.

Technical Comments
This section describes aspects of technical analysis in gold and silver, which can be used to assist in buy and sell decisions over periods of weeks to months. Traders often use technical analysis to trade or profit from price movements up or down. Because large traders, e.g. hedge funds, often use the same signals, price-movements are often amplified and technical signals become self-fulfilling prophecies due to the herd-mentality.

Learn more about technical analysis:

http://stockcharts.com/education

and the terms used:

http://stockcharts.com/education/GlossaryA.html

Learn more about candle charts:

http://www.litwick.com/about.html

All charts used are courtesy of Stockcharts.com unless otherwise stated.

Find out more about the Elliot wave principle:

http://www.prognosis.nl/principle/index.html

Please note that our technical comments will be purely technical in nature and will not attempt to rationalise or second-guess the reasons for price movements.

Advice on buying and selling precious metals
It is not the policy of Johnson Matthey & Brandenberger AG, to advise customers on specific buy or sell points. We are however prepared to assist customers in formulating views on precious metal markets and preparing strategies suited to their individual buying and selling needs.

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